

WHY WE NEED TO ENACT DEMOCRATS' WORKER RELIEF PACKAGE

Democrats believe that, as part of an economic stimulus package, it is critical to help those families that have lost their jobs. This assistance is important both to protect the families most imperiled by mounting job losses, as well as to stimulate consumer demand and economic growth. Democrats are advocating improvement in unemployment benefits for laid-off workers, as well as health insurance coverage for these workers.

On October 24, House Republicans passed, by a vote of 216 to 214, H.R. 3090, the Republicans' highly-partisan so-called "economic stimulus" package. Unfortunately, this bill included \$100 billion in tax cuts targeted to large corporations and wealthy individuals – while at the same time providing virtually no assistance to those who have lost their jobs and their health insurance in recent months.

In sharp contrast, House Democrats offered a substitute to the GOP bill on the House Floor that provided meaningful relief for laid-off workers – while at the same time providing temporary business and individual tax cuts that are targeted at stimulus (rather than corporate special interests). This Democratic substitute included \$30 billion for improvements in the Unemployment Compensation system for laid-off workers and \$25 billion for subsidizing health insurance coverage for these workers. Over on the Senate side, on November 14, Senate Republicans blocked the Democrats' economic stimulus/worker relief package from moving forward.

The following DPC analysis provides an overview of why Democratic proposals on worker relief are so urgently needed by the nation's growing number of laid-off workers.

Unemployment is Growing

The U.S. economy had been weakening even before the September 11th terrorist attacks. Indeed, it has now been determined that a recession began in March. Indeed, the unemployment rate climbed from a low of 3.9% in October 2000 to 4.9% in August. However, the September 11th terrorist attacks had a seriously negative impact on an already-weakened economy.

In part as a result of the September 11th terrorist attacks, 486,000 Americans lost their jobs in October – the most in a single month since May 1980. Then, another 331,000 Americans lost their jobs in November. The overall jobless rate has shot up from 4.9% in September to 5.7% in November. Furthermore, Americans are losing their jobs this fall in an increasingly gloomy job market. Indeed, the number of those who are unemployed and looking for new jobs has increased by 2.2 million since the beginning of 2001.

Why We Need Democrats' Unemployment Compensation Package

There are a series of problems that make the current unemployment compensation system inadequate in meeting the needs of the growing number of laid-off workers.

Ensuring Availability of Extended Unemployment Benefits in All States

A first major problem in the unemployment compensation system is that many jobless workers – during an economic downturn – run out of regular unemployment benefits, which last for 26 weeks, before they can find another job.

In every economic downturn of the last 30 years, federal legislation has guaranteed that unemployed workers who exhaust their regular benefits are eligible for additional weeks of federally-funded benefits, regardless of the state in which they reside. For example, in the last recession (1990-1991), \$35 billion of federal funds (in 2002 dollars) were used to provide additional weeks of unemployment benefits to workers in every state who exhausted their regular benefits.

Democrats' Proposal: Over the next 12 months, the proposal would provide additional weeks of federally-funded extended unemployment benefits to workers who have exhausted their regular benefits, regardless of the state in which they reside.

Ensuring A Larger Portion of Unemployed Workers Receive Unemployment Benefits

A second major problem is that the majority of unemployed workers do not get unemployment compensation. Specifically, even though 7.7 million Americans are out of work, currently only 47% receive unemployment benefits. This has been a growing problem in recent years. For example, in 1975, 75% of those who were unemployed received unemployment compensation. This problem is most prevalent with low-wage workers. According to the General Accounting Office (GAO), low-wage workers are less than half as likely to receive unemployment benefits compared to higher-wage workers, even when employed for similar periods of time. Specifically, the GAO has determined that only 18% of unemployed low-wage workers receive unemployment benefits.

The problem is that many states have set eligibility standards for Unemployment Insurance (UI) that leave many jobless workers behind. For example, currently, part-time workers in the majority of states are not eligible for UI benefits, regardless of whether they otherwise qualify for benefits on the basis of their wage history and regardless of the fact that UI taxes were paid on their behalf. In these states, part-time workers – who represent about one-sixth of the U.S. labor force – are ineligible simply because they are not available for full-time work. Those disqualified by this restriction include women with young children who work 70 percent to 80 percent of full-time but are not available to work full-time.

Secondly, currently, in most states, up to six months of an unemployed worker's most recent work experience is ignored in determining the worker's Unemployment Insurance (UI) eligibility. In these states, wages earned in the most recent calendar quarter and the previous quarter are not counted. (This procedure is a relic of unemployment insurance procedures established decades ago before the advent of widespread computerization when data on recent earnings were not readily available.) As a result of these procedures, many low-wage workers who have entered the labor market fairly recently and would qualify for benefits upon being laid off if their recent work experience were counted end up receiving no benefits (or do not begin receiving benefits until they reapply several months later.) Such denials and delays are not desirable either for the laid-off workers or for an economy in need of immediate stimulus.

Democrats' Proposal: Over the next 12 months, the proposal would provide unemployment compensation coverage to certain unemployed workers not covered by the current system – in light of the fact that the current system increasingly fails to cover a substantial portion of the workforce. Specifically, first, under the Democratic proposal, part-time workers (such as mothers with young children) who are laid off, are looking for comparable employment, and meet all other UI eligibility criteria would be eligible for UI benefits. Secondly, the Democratic proposal would provide that the most recent work experience of unemployed workers would be considered in determining their benefits.

Increasing Inadequate Unemployment Benefits

A third major problem with the unemployment compensation system is that unemployment benefits are too low – in some cases below the poverty level. Benefits range from a minimum of \$5 a week to a maximum of \$477 a week, depending on the state. The average weekly UI payment is about \$230. Nationwide, unemployment benefits replace an average of only 47% of lost wages – leaving many workers hard-pressed to meet their monthly bills. (In comparison, in Western Europe, unemployment benefits replace an average of more than 60% of lost wages.) In addition, these unemployment benefits are subject to federal income tax, further eroding the value of these benefits.

Democrats' Proposal: Over the next 12 months, the proposal would provide for federal funding for increasing the level of unemployment benefits – in light of the fact that unemployment benefits are currently too low.

Why We Need Democrats' Package Subsidizing Health Insurance Coverage for Unemployed Workers

Since most Americans get their health insurance through their jobs, the growing loss of jobs has been accompanied by many Americans losing their health insurance as well.

Subsidizing COBRA Health Insurance Premiums

Before 1985, if an employee's job was terminated, the health insurance offered by the employer also ceased, usually within 30 to 60 days. In 1985, Congress enacted legislation to provide access to health insurance for these terminated employees. Under Title X of the Consolidated Omnibus Budget Reconciliation Act (COBRA), an employer with 20 or more employees must provide terminated employees and their families the option of continuing their coverage under the employer's group health insurance plan. The COBRA coverage may last up to 18 months in most cases. However, the employer is not required to pay for this coverage; instead, the ex-employee is required to pay 102% of the premium.

Due to the fact that laid-off employees tend to have limited incomes and that they are now responsible for both the employee and employer share of the premium, the vast majority of laid-off employees have been unable to take advantage of the COBRA provisions. Indeed, on average, only about 18% of those eligible for COBRA coverage currently elect to purchase the coverage.

The economic burden on an unemployed worker of paying COBRA premiums is highlighted by the fact that the average unemployment benefit is about \$900 a month, whereas the average COBRA premium for family coverage is about \$600 a month – thereby making COBRA coverage prohibitively expensive for the vast majority of COBRA-covered unemployed workers.

Democrats' Proposal: The proposal provides a federal subsidy of 75% of the COBRA premium costs for a period of 12 months for laid-off workers who qualify for COBRA coverage.

A Temporary Medicaid Option for Displaced Workers

Finally, in addition to the need for subsidizing COBRA premiums, there is a need for a temporary Medicaid option for low-income displaced workers.

This is because there are tens of thousands of people currently being laid off who for a variety of reasons are not eligible for COBRA. Therefore, subsidizing COBRA premiums does them no good.

For one thing, COBRA only applies to employers of 20 or more employees. Therefore, all of the workers who work for small businesses do not receive the protection of COBRA. Also, there are thousands of seasonal and part-time and "contract" employees who do not receive the benefit of COBRA.

While a number of these individuals who become unemployed would ordinarily turn to state

Medicaid programs for health care assistance in this time of need, states currently face severe fiscal problems. State budgets are facing greater uncertainty in the wake of the September 11th attacks, due to declining revenues and greater costs. Indeed, since September 11th, a number of states have already called special legislative sessions and taken dramatic steps to reduce state spending. Many of these states are cutting their Medicaid programs by reducing benefits or eligibility, despite the fact that more people will likely be turning to states for help with health insurance.

Democrats' Proposal: The proposal would create a temporary Medicaid option for displaced workers that would allow states to temporarily extend health insurance coverage through Medicaid to individuals (and their dependents) who have been laid off and are ineligible to participate in COBRA coverage and are not otherwise covered by health insurance. The Federal Government would pick up a larger share of the state's Medicaid costs for these individuals than its normal share. This temporary Medicaid option would be available for 12 months – while the individual seeks new employment. In addition, for those low-income individuals eligible for the federal COBRA subsidy, states would have the flexibility to use the Medicaid funds to pay the portion of the COBRA premium not covered by the federal COBRA subsidy.